

Message Text

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AMEMBASSY PRETORIA

AMEMBASSY ROME

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USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

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SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK NOV 21-27

1 SUMMARY: FOREIGN EXCHANGE MARKET ACTIVE WITH DOLLAR UNDER
DOWNWARD PRESSURE AFTER US PRIME RATE LOWERED. GOLD PRICE
EASED TO 130. CAPITAL MARKET REMAINED HIGHLY LIQUID; INTEREST
RATES CONTINUED TO SOFTEN BUT DOWNWARD TREND MAY BE ENDING.
SWISS NATIONAL BANK PRESIDENT SAID SWISS ECONOMY WILL HOLD
ITS OWN IN 1977 DESPITE LACK OF FOREIGN STIMULATION. SNB
ANNOUNCED 5 PERCENT MONEY SUPPLY GROWTH RATE TARGET FOR 1977.
CHEMICAL INDUSTRY THIRD QUARTER FIGURES SHOWED MIXED RESULTS.
CONSTRUCTION REMAINS DEPRESSED. HOTELS REPORTED OVERNIGHT
STAYS CONTINUED DECLINE IN OCT. WAGES ROSE SLIGHTLY
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IN THIRD QUARTER AND NUMBER OF FIRMS ON SHORT WORK HOURS

DELINED. NEW CAR SALES ROSE IN OCT.

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET ACTIVE. DOLLAR WEAKENED AFTER US PRIME RATE LOWERED. DOLLAR RATE DECLINED FROM SF 2.44 MONDAY TO SF 2.42 DURING TUESDAY, RETURNING TO SF 2.44 BY FRIDAY CLOSING. SWISS NATIONAL BANK INTERVENED TO STABILIZE MARKET, CONCLUDED SWAPS FOR SF 300 MILLION ON WEDNESDAY ALONE. CONTINUED UPWARD PRESSURE ON DM ALSO DUE TO WEAKNESS POUND STERLING. GOLD PRICE SHOWED SLIGHT DECLINE TO 130 IN STABLE MARKET. RATES FOLLOW:

--/22(OPEN) -11/26(CLOSE)
SPOT DOLLAR - 2.4420 - 2.44
FORWARD DISCOUNT(PCT P.A.)
ONE MONTH - 3.75 - 3.19
2 MONTHS - 2.83 - 2.71
3 MONTHS - 2.76 - 2.45
6 MONTHS - 2.89 - 2.76
12 MONTHS - 2.87 - 2.78
SF/DM - 101.11 - 101.45
GOLD - 132 - 130

3. CAPITAL AND MONEY MARKETS: MARKETS CALM, SOME INTEREST RATES CHANGING AS YEAR-END NEARS. CALL MONEY RATE ROSE TO 1 PERCENT AS BANKS MOVED TO MEET MONTH-END REQUIREMENTS. STOCKS SHOWED SLIGHT IMPROVEMENT: S&P INDEX (1959 EQUALS 100) UP SLIGHTLY TO 205.3 NOV 26. AVERAGE YIELD CONFEDERATION BONDS 4.41 FRIDAY, UP FROM 4.0 DURING WEEK AND NEAR 4.42 RATE OF NOV 19, MAY INDICATE BEGINNING STABLE PERIOD FOLLOWING RECENT DOWNWARD TREND. PRIVATE BANKS LOWERED THEIR DISCOUNT RATE FOR FIRST CLASS COMMERCIAL PAPER AND BANKERS' ACCEPTANCES FROM 4.5 TO 4 PERCENT EFFECTIVE NOV 26, PREVIOUS REDUCTION MARCH 15, 1976 FROM 5 TO 4.5 PERCENT. FOUR LARGEST BANKS ANNOUNCED LOWER INTEREST RATES ON THEIR BONDS; EFFECTIVE NOV 29 NEW RATES 3-4 YEAR BONDS CUT TO 3.5 PERCENT, 5-6 YEARS 4 PERCENT AND 7-8 YEARS 4.25 PERCENT; LAST RATE CUT WAS OCT 27, 1976. LARGEST BANKS ALSO RAISED INTEREST RATE ON 3-5 MONTH TIME DEPOSITS FROM 1.25 TO 1.5 PERCENT, RATES UNCLASSIFIED

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FOR OTHER DEPOSITS REMAINED UNCHANGED. SWISS NATIONAL BANK HOLDINGS OF US GOVERNMENT BONDS DECLINED SF 45 MILLION TO SF 5,358 MILLION AS OF NOV 23.

4. SNB VIEWS: SWISS NATIONAL BANK PRESIDENT LEUTWILER STATED THAT 1976 HAS TURNED OUT BETTER THAN EXPECTED AND THAT SWISS ECONOMY WILL HOLD ITS OWN IN 1977. OUTLOOK FOR ONLY MODEST ECONOMIC GROWTH NEXT YEAR WITH LITTLE STI-

MULATION EXPECTED FROM STRONGER PERFORMANCE IN OTHER INDUSTRIALIZED COUNTRIES. HE SAID THAT MONETARY SITUATION UNCLEAR BECAUSE OF UNCERTAINTY RE ECONOMIC POLICY DECISIONS US PRESIDENT-ELECT WILL MAKE, ADDING THAT REDUCTION US UNEMPLOYMENT AND HOLDING DOWN PRICES REQUIRE POLICY OF STABLE DOLLAR. DESPITE CONTINUED SWISS BALANCE OF PAYMENTS SURPLUS, LETUWILER SAID THERE IS REASON TO HOPE SWISS FRANC WOULD HOLD STEADY AGAINST THE DOLLAR AND POSSIBLY MOVE SLIGHTLY LOWER. SNB FOREIGN EXCHANGE MARKET INTERVENTIONS HAVE BEEN AS EFFECTIVE AS EXPECTED; FOREIGN EXCHANGE PURCHASES JAN TO MID-NOV WERE SF 15.3 BILLION WITH SALES SF 13.4 BILLION FOR NET SF 1.9 BILLION INCREASE. HOWEVER, IMPACT OF FOREIGN EXCHANGE INFLOW ON SWISS MONEY SUPPLY WAS OFFSET BY GOVT DEPOSITS OF LARGE FEDERAL LOAN PROCEEDS WITH SNB.

5. MONETARY POLICY: SNB ANNOUNCED THAT, SUBJECT TO UNFORESEEN CONTINGENCIES SWISS MONEY SUPPLY (MI) ANNUAL GROWTH RATE TARGET FOR 1977 WILL BE 5 PERCENT. GOVT AND SNB POLICY GOALS ARE TO MAINTAIN LOW INTEREST RATES, AVOID RENEWED INFLATION AND STABILIZE SWISS FRANC EXCHANGE RATE. SNB NOTED THAT MONEY SUPPLY GROWTH RATE FELL BELOW 6 PERCENT TARGET IN 1975 BUT WOULD EXCEED THAT SAME TARGET RATE IN 1976.

ECONOMIC

6. CHEMICAL INDUSTRY: PRELIMINARY FIGURES FOR THIRD QTR 1976 INDICATED SALES DOWN 8.8 PERCENT FROM SECOND QTR AND 10 PERCENT FROM FIRST QTR THIS YEAR. THOUGH PRODUCTION UP 2.3 PERCENT OVER FIRST HALF THIS YEAR, RESULTS HAVE BEEN MIXED FOR VARIOUS PRODUCT CATEGORIES AND REDUCTIONS EXPECTED DURING UNCLASSIFIED

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FOURTH QTR AS INVENTORIES BUILD UP. OCT CHEMICAL EXPORTS SF 697 MILLION, UP 4.2 PERCENT OVER SF 669 MILLION AVERAGE PRECEDING THREE QTRS. SWISS CHEMICAL PRODUCERS ASSN NOTED PRICES US AND EASTERN EUROPE CHEMICAL PRODUCTS ARE MAJOR CONCERN FOR EUROPEAN PRODUCERS, ESPECIALLY DUE TO LOWER LOST US DOMESTIC PETROCHEMICAL RAW MATERIALS.

7. CONSTRUCTION INDUSTRY: THOUGH SUMMER CONSTRUCTION FIGURES SHOWED SLIGHT IMPROVEMENT, FIGURES SINCE SEPT INDICATE INDUSTRY REMAINS DEPRESSED. TOTAL CONSTRUCTION ACTIVITY SF 4.9 BILLION, COMPARED SF 9.1 BILLION DURING 1972-73 FALL MONTHS. HOUSING CONSTRUCTION HAS FALLEN 66 PCT FROM 1975 TO SF 1.1 BILLION. PRODUCTION HAS FALLEN 7 PCT FOR ALL CONSTRUCTION.

INDUSTRY EMPLOYMENT IS DOWN 7 PCT
FROM END SEP 1975 THOUGH NUMBER SWISS CONSTRUCTION
WORKERS REMAINS RELATIVELY STABLE, NUMBER RESIDENT
FOREIGN WORKERS DECLINED 12 PCT AND SEASONAL WORKERS
FELL 23 PCT FROM 1975 DECREASE EVEN GREATER WHEN
COMPARED TO 1972-73 BOOM YEARS.

8. HOTEL INDUSTRY: SWISS HOTELS REGISTERED 2 MILLION
OVERNIGHT STAYS DURING OCT, 5 PCT BELOW OCT 1975.
OVERNIGHT STAYS BY SWISS DECREASED 4 PCT TO 1,069,000
WHILE FOREIGN VISITORS FELL 7 PCT TO 932,000. PERIOD
JAN-OCT HAS 27,546,000 OVERNIGHT GUESTS, DOWN 4 PCT
FROM SAME PERIOD LAST YEAR. THOUGH FOREIGN VISITORS
FROM WESTERN EUROPE DOWN 21 PCT AND UK DOWN 15 PCT FROM
LAST YEAR, NUMBER US VISITORS ROSE 16 PCT.

9. LABOR: HOURLY WAGES AND MONTHLY SALARIES ROSE 1.2
AND 1.4 PERCENT RESPECTIVELY DURING THIRD QTR 1976
COMPARED SAME PERIOD 1975. NUMBER OF FIRMS WORKING
REDUCED HOURS FELL FROM 966 END SEP TO 911 END OCT.
TOTAL 20,389 PERSONS ON SHORE TIME WORK COMPARED
23,777 END SEP.

10. AUTOMOBILES: NEW CAR SALES CONTINUED TO RISE IN OCT
WITH TOTAL 15,476, UP 11.9 PCT OVER OCT 1975. FIRST 10
MONTHS 1976 SAW 168,065 NEW CARS SOLD, 7 PCT ABOVE
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SAME PERIOD LAST YEAR. OCT SALES LED BY VW, FORD (EUROPE),
OPEL, RENAULT, FIAT, CITROEN, TOYOTA, PEUGEOT, BMW AND AUDI/
NSU. ONLY FIAT HAD 3.4 PCT SALES DECREASE COMPARED OCT
1975; ALL OTHERS INCREASED.
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